

Tetjana Iefimenko

## ACTUAL ISSUES OF MODERN STRATEGIES IN REFORMING TAX SYSTEMS

*The theoretical fundamentals and mechanisms of strategies in tax system reforming are considered. The directions of anti-crisis fiscal regulation under financial stability restoring are determined. A list of suggestions is formed for further improvement of the tax system.*

**Keywords:** public finance, taxation system, reform strategy, economic growth, fiscal policy, crisis management.

**JEL classification:** H20, H21, H30.

Т. І. Єфименко

## АКТУАЛЬНІ ПИТАННЯ СУЧАСНИХ СТРАТЕГІЙ РЕФОРМУВАННЯ ПОДАТКОВИХ СИСТЕМ

*Розглянуто теоретичні засади та механізми стратегій реформування податкових систем. Визначено напрями антикризового фінансового регулювання в умовах відновлення фінансової стійкості. Сформульовано пропозиції щодо подальшого вдосконалення податкової системи.*

**Ключові слова:** державні фінанси, податкова система, стратегія реформ, економічне зростання, фінансова політика, антикризове регулювання.

Т. И. Ефименко

## АКТУАЛЬНЫЕ ВОПРОСЫ СОВРЕМЕННЫХ СТРАТЕГИЙ РЕФОРМИРОВАНИЯ НАЛОГОВЫХ СИСТЕМ

*Рассмотрены теоретические основы и механизмы стратегий реформирования налоговых систем. Определены направления антикризисного фискального регулирования в условиях восстановления финансовой устойчивости. Сформулированы предложения по дальнейшему совершенствованию налоговой системы.*

**Ключевые слова:** государственные финансы, налоговая система, стратегия реформ, экономический рост, фискальная политика, антикризисное регулирование.

Fiscal policy instruments play an important role among the regulatory mechanisms, in particular, in the areas of budgeting, taxation and public spending. In the financial science, these directions are reflected in the well-known theoretical works on economic growth, behaviour, welfare economics, collective choice and individual values. This refers to the researches of A. Bergson, J. Buchanan, W. Heyts, S. Greenberg, P. Grossman, K. Arrow, J. Keynes, R. Musgrave, O. Morgenstern, G. Myrdal, G. Neumann, V. Polterovich, R. Starr, A. Chukhno [1-13] and others. Finding ways to address these issues is extremely urgent, especially in view of the fact that the crisis effects and post-crisis challenges necessitated the restructuring of institutions of governance and appropriate reforming of fiscal relations.

After a deep crisis, a sequential recovery of economies is accompanied by the external and internal negative factors, namely: threat of loss of sales markets, imperfect economic basis for sustainable growth, instability of the financial system as a

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whole. Many researchers rightly point out that recently the contradictions in the relations between state and market often lead to inconsistent and sometimes unpredictable relations that characterize the movement of money capital. Practice has shown that public financial anti-crisis institutions become more effective if their mechanisms are aimed at achieving the equilibrium state of the economy [14, p. 172]. It should be noted that the banking institutions concentrate and allocate investments in the economic system, thus creating a chain of indirect links of investors with the public sector. As a result, if loyalty of the tax rules for investors is sufficient and the general potential for stabilization influence is available, the country credit rating increases significantly. This is related with the fact that possibilities to predict and compensate for the investment risks to support a safe financial investment options are largely dependent on direct or indirect involvement of budget expenditures in specific projects.

The post-crisis period of the world economy development beginning after 2010 was accompanied by a recovery of positive trends. However, the greater exposure to financial instability necessitated the further search for coordinated actions of the world economic community regarding the anti-crisis fiscal regulation aimed at increasing innovation activity not only in the real, but also in the financial and public sectors of economies. Modern development strategies are focused on high technologies, export-import policy, social protection, etc. The government is actively implementing incentive tax, and customs preferences. Crisis management is often on the verge of manual control, especially in the budget sphere that can cause excessive politicization and risks of market development as a complex evolutionary self-organizing system. Thus, a group of quasi-market mechanisms appears which require to combine them with market regulators [14, p. 235].

Despite the attractiveness of such problem-solving method as enforcement of protective measures, in our view, theorists and practitioners in policy-makers should be focused on a real potential for liberalization of national economies in order to increase their efficiency, foster production growth and increase competitiveness. The discussions on the mechanisms of public social benefits in relation to the goals of welfare led to the emergence of a number of theoretical and practical approaches to performing the essential government functions related to competitive safeguards. The point is that in the case of implementing the actions that benefit a large group of people, including the social support, income redistribution institutions are extremely necessary because market mechanisms are ineffective in such cases. These institutions include taxes that play a key role in the public life, reproductive activities, are involved in the formation of GDP by components of income and its secondary distribution, as well as in regulating the relations between the government and entities. Thus, one of the primary functions of taxation is to ensure tax revenues to support public spending at a certain level. In addition, the taxes, due to its regulatory function, can contribute to achieving macroeconomic objectives, including price stability, high employment level, and income redistribution.

The national tax policy should ensure coordination of the interests of the state, entities and regions, taking into account the level of development and real opportunities to create conditions of economic activities that favoured the fullest possible utilization of resources. Orientation towards sustainable development requires structural and technological changes such as innovations in the economy as a whole and its individual sectors. To do this, the function of the tax system as a catalyst should be activated, that, on the one hand, will ensure a transition to the most advanced technological set-up, and, on the other, will contribute to the development of industrial infrastructure, reconstruction and disposal of outdated production facilities and equipment. Finally, the fiscal policy should ensure sustainable economic growth, increase efficiency of all sources, necessary for business activity. Incidentally, the frequency that is characteristic of tax reforms is determined by numerous combinations of economic and political development cycles. For example, price trends and condition of oil and gas markets determine the need to attach particular importance to resource-saving instruments of national taxation systems.

Tax reforms are mainly related to increase in efficiency and simplification of the fiscal systems in accordance with known Pareto improvements [15], when managing the changes makes to at least one person better off without making anyone else worse off. However, even under conditions of implementing the most desirable reforms, the impact of tax instruments on income distribution after the mandatory payments transferred by the entities almost never enables them to obtain the same profitable outcomes. In fact, business risks are associated with a large number of various internal and external factors, so the task of tax policy is not to complicate the process of economic decision-making by the producers and consumers and to comply with the principle of neutrality.

In summarizing the regulatory perspectives of taxation at the macro- and micro-level, it should be emphasized that stimulation of any motivations or the effects of taxes on the allocation processes should not be considered separately from the general fiscal management functions. Therefore, the goal of tax policy is to achieve a combined effect of all components, both of mechanisms that contribute to maintaining and expansion of the tax base and all types of taxes. The task is to encourage economic agents to orient business activities to the directions that are priority areas for a strong, competitive state by ensuring the required amount of revenues to the budgets of all levels that are necessary to perform the government functions. Concurrent conflicting processes of international tax competition, government policy coordination on the intergovernmental and national scale are influencing the establishing of sources of budget revenues depending on the characteristics of various types of industrial activity and consumption. The international, historical and domestic experience shows that the global environment requires further consistent harmonization of all functions of taxes based on principles of justice, equality and neutrality.

Increased dependence of the national markets on the world markets is associated with permanent changes in the competitive position of countries in the global

environment, which, in turn, require strengthening the coordination role of supranational rules concerning the public sector in different countries. As rightly noted T. Sandler [16, p. 89-91], the phenomenon of the growth in this sector of economy, which accounts for from one third to one half of GDP, is not yet fully understood. The countries that are seeking improved social standards, particularly under the Scandinavian model of economic development, where the share of spending on the public sector in GDP is consistently high, are typically characterized by transparent, equitable allocation of the expenditure budget. Accordingly, as the demand for financial resources to maintain the government functions increases, fiscal burden on the business entities is growing. In order to determine and maintain the required level of burden to service expenditures, it is extremely important to create institutions developing and implementing the management decisions of strategic and tactical nature, especially in the sphere of finance, fiscal and monetary policies.

At the end of the XIX century, the German economist A. Wagner, studying laws of relationships between the trends in development of the public and private sectors, found that the increase in the value of public services contributes to the development of productive forces (the Wagner's law). Thus, there is interrelation of trends of increasing net public revenues and budget expenditures both in absolute amount and in relation to national income. The debate about Wagner's law confirms the validity of the statements about the presence of certain restrictions as to the characteristics of the interdependence of parameters of the national economic systems in the long term, and positive correlation dependence between the growth rates of per capita GDP and public spending [17].

In our opinion, the opinion is quite reasonable that for the different groups of countries the laws described by A. Wagner appear differently. In addition, the maximum allowable share of the state in the economy, depending on the nature of the evolution of socio-economic systems is determined based on the studies. The ratios of public to private sectors have features associated with systemic indicators of economies reflecting the traditions of economic organization and management. For example, at the end of the XX century D. Scully calculated that for the U.S. economy the share of public expenditures in GDP of 23% is critical: its increase may lead to declining GDP [18].

The global financial crisis, complications in demographic situation, institutional factors of globalization determine the need for the development and implementation of stabilization measures, which in turn causes fluctuations in the share of government in the economy. These trends can be traced by analysing the dynamics of tax revenues, as the annual changes of their share in the structure of public revenues of various countries enable to carry out a generalized assessment of the main trends in the fiscal burden.

Thus, in most European countries in the first decade of the XXI century a stable dynamics of gradual reduction in the tax burden was observed that was associated

mainly with the recommendations of the European Commission in autumn 2008. According to the data of 2007, Denmark had the highest tax-to-GDP ratio of 48.9% (excluding social security contributions) among European countries. Over the next two years of crisis the tax loading decreased by 1.9 pp (percentage point), in 2010 by another 0.1 pp compared to 2009. However, in 2011 it increased to 48.07%, exceeding its value in 2008-2010. Similar trends can be observed in other European countries with traditionally high tax burden, including Belgium, Finland, while its annual fluctuations in developed countries during 2007-2011 differed significantly, although in 2011 upward trends in the tax burden were observed in most countries compared to previous years that will be discussed in more detail below. Attention is drawn to the fact that in countries such as the USA and Japan, where the fiscal burden has traditionally been much lower, its fluctuations during this period were from 24 to 28.5% (including social security contributions), while in 2008-2009 either a decrease, or maintenance of its level was observed and mostly increase were observed in 2010-2011 (Table) [19].

Undoubtedly, the trends of the tax burden should be considered taking into account the dynamics of not only taxes, but also social insurance payments. In the period of 2007-2011, in most developed European countries an increase of the burden from both taxes and social security contributions was observed. Meanwhile, in Italy and Austria the overall tax burden was decreased, but social charges on salaries were increased, and both indicators decreased in Spain. Let us analyse the structural changes in these indicators in 2010-2011 according to the data presented in the Table.

In the crisis years, the tax burden in most countries declined. In the period 2010-2011, a steady upward trend in the share of taxes without mandatory payments in GDP was observed in almost all countries presented in the Table. Growth index was in the range from +0.1 to 0.9 pp, except France, where it was 1.2 pp. In Italy and the Netherlands the level of tax payments remained unchanged, while in Spain and Canada it was 0.7 and 0.1 pp, respectively. It is interesting that in Russia and Ukraine increase in the share of taxes without mandatory payments in GDP exceeded significantly during these years the data in other countries presented, amounting to 2.3 and +4.0 pp, respectively. This can be explained by changes to existing legislation in order to implement long-term crisis management measures and reduce the level of shadow economy.

The share of social payments as in GDP during 2010-2011 was the lowest in Denmark, Sweden, United Kingdom, Canada, USA, Russia, ranging from 1.0 to 8.2%. An increase in burden of social security contributions in 2011 compared to 2010 was observed in the United Kingdom, Canada, and Russia (0.1 to 1.0 pp), a decrease was observed in Sweden and the USA (from 0.8 to 0.7 pp), in Denmark its value did not change. This figure was at a much higher level of 11.4 to 16.9% in other countries. In Germany, Denmark, Italy, Austria in 2011 compared to 2010

Table. Share of tax revenues in GDP, %

Country	The share of taxes and mandatory payments to GDP in 2010, %	The share of taxes without mandatory payments to GDP in 2010, %	Difference, pp	The share of taxes and mandatory payments to GDP in 2011, %	The share of taxes without mandatory payments to GDP in 2011, %	Difference, pp
Germany	37.9	22.4	15.5	38.7	23.2	15.5
Belgium	43.8	29.6	14.2	44.1	29.8	14.3
Denmark	47.4	46.4	1.0	47.7	46.7	1.0
France	42.5	25.8	16.7	43.9	27.0	16.9
Italy	42.5	29.1	13.4	42.5	29.1	13.4
Netherlands	38.8	24.7	14.1	38.4	23.6	14.8
Austria	41.9	27.3	14.6	42.0	27.4	14.6
Sweden	45.4	37.2	8.2	44.3	37.3	7.0
United Kingdom	35.4	28.8	6.6	36.1	29.4	6.7
Spain	32.1	20.0	12.1	31.4	19.4	12.0
Canada	31.0	26.3	4.7	31.0	26.2	4.8
USA	24.8	18.5	6.4	25.1	19.4	5.7
Japan	27.6	16.3	11.4	29.0	16.8	12.2
Russia	32.7	27.2	5.5	36.0	29.5	6.5
Ukraine	34.3	21.7	12.6	37.8	25.7	12.1

*Source:* Taxation Trends in the European Union — Data for the EU Member States, Iceland and Norway, 2013 [E-resource]. Available at: [http://ep.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_structures/2013/report.pdf](http://ep.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2013/report.pdf); Revenue Statistics — Comparative tables OECD [E-resource]. Available at: <http://stats.oecd.org>; Japan, 2012 Article iv consultation / IMF Country Report, 2012, No. 12/208 [E-resource]. Available at: <http://www.imf.org/external/pubs/ft/scr/2012/cr12208.pdf>; Russian Federation, 2012 Article iv consultation /IMF Country Report, 2012, No. 12/217 [E-resource]. Available at: <http://www.imf.org/external/pubs/ft/scr/2012/cr12217.pdf>; GDP (current LCU) / The World Bank [E-resource]. Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CN>; Social contributions (current LCU) /The World Bank [E-resource]. Available at: <http://data.worldbank.org/indicator/GP.REV.SOCL.CN>.

the burden of social contributions remained the same; in Spain and Ukraine it decreased by 0.1 and 0.5 pp, respectively, while in Belgium, France, Netherlands, Japan it increased by 0.1 to 0.8 pp. Compared with the burden range in terms of tax payments, which highest value is 46.7% (Denmark, 2011) exceeds the least value of 16.3% (Japan, 2010) by 2.87 times; the spread of indicators of social security contributions is much greater ranging from 1.0% (Denmark, 2010-2011) to 16.9% (France, 2011). Thus, despite the attempts to harmonize the national legislations, significant differences remain in the systems of taxation and payments of social security contributions. Moreover, the formation of single approaches to the financial institutions of social support, where the difference in the burden indicator is 16.9, also requires meticulous attention of the international community.

Analysing the differences in the fiscal institutions of different countries, which determine the amount of public spending, it should be taken into account that budget expenditures are directed not only to finance public goods, but also to maintain the government administration staff. Administering the mandatory payments is always intended to ensure the necessary budget replenishment at minimum costs for collection, tax audit and control.

Presently the estimate of expenses for taxes and dues is one of the key indicators of well-known ranking of ease of doing business, which is a guide for making investment decisions. A wide variation of estimated data within the appropriate ranges of indicators evidences, in particular, that the trends in the change of government share in the economy require further in-depth study by theorists and practitioners within the framework of contemporary national and supranational strategies of reforming the economic systems.

In this regard, the problem of moving offshore a formal reporting of business activities requires special attention as this reduces the level of tax revenues and increases the risks associated with budget deficit and ultimately limits the opportunities to develop investment, social, and demographic programs as a part of fiscal policy at the national and regional levels. At the beginning of the XXI century, there were about 60 offshore areas around the world, including Cyprus, Gibraltar, Isle of Man, and capital concentrated in them was estimated at USD 32 trillion [18, p. 52]. Ensuring (often under the influence of big business lobbyists) reduced levels of taxation to the residents, these countries are giving them the opportunity when making transactions under the international law to reduce the tax burden and hide the true owners of business.

Due to this, the entities, especially in conditions of crisis, can make tax planning, save resources on account of mandatory payments, while maintaining business activity and avoiding bankruptcy. At the same time, the uneven tax load creates unfair market advantages. For this reason, the international institutions are conducting a deep analysis of the practice of concluding agreements on avoidance of double taxation and exchange of information between the countries with different

tax burden, including offshore zones, in order to improve the supranational norms toward eliminating the factors that distort the competitive characteristics of goods and services. The same approaches are applied by the EU in harmonization of government support to the entities with regard to providing both budgetary resources and benefits to certain groups of taxpayers. In this, it should be taken into account that the introduction or elimination of preferences as a result of tax reforms is promising only if they do not violate the balance of interests of different groups of economic agents that influence the formation of political rules and relations.

It should be noted that due to the specific application of regulatory mechanisms, the anti-crisis measures of fiscal consolidation in terms of taxation are often accompanied by changes in tax burden unpredictable to business in the medium term in almost all countries. In our opinion, this has evidenced the failure of the government machineries to organize properly systematic anti-crises measures in the first decade of the XXI century.

The international institutions deem it necessary to revise supranational tax rules to create a more stable environment for business activity of economic agents. Thus, in recent years the G20 countries declare intention to discuss tax evasion issues, with emphasis on methods to counteract the deliberate misrepresentation of tax base and methods of corporate income taxation. It is expected to achieve a general consensus of all G20 countries on the following issues: 1) whether profits should be taxed where surplus value is created and the factors are available that affect the possibility of using legal instruments to stimulate the use of profits for development; 2) how important is that the internal laws of the G20 prevent multinational corporations from reducing the total amount of taxes paid by showing profits in low-rate tax jurisdictions.

Undoubtedly, further discussion of these measures should take place under the international support to establishing the resource potential to finance the development of national economies, their fiscal sustainability based on fair tax payments, improvement of taxation using single or shared databases with automatic exchange of tax information and compliance with restrictions under national laws. It is quite possible that after the approval of consensus on the above issues, the fight against jurisdictions that obviously have no intention to work jointly in that direction will be dealt with.

Modern anti-crisis strategies have confirmed that the tax regulators of the business are more effective, if they are correlated in a certain manner with other levers of economic management influencing the market equilibrium. These instruments include: the strengthening of credit support, accompanied by relatively low rates of funds provision; targeted social assistance, active labour market policies; infrastructure financing, price regulation.

It should be noted that it is not reasonable to resort to drastic tax reduction for stimulation of entrepreneurial activity when it is necessary replenish the public financial resources to achieve a sustainable growth. Not only the tax burden, but also



investments, determining the amount of tax base, affect GDP dynamics. Therefore, it is required to reduce gradually the tax burden on the real economy sector. It is also required to improve the mechanisms of cost management for investments in preferred directions of development and increase the share of these costs in the expenditure budgets of all levels at the same time.

In developed countries, the taxes are an important instrument of economic regulation, in particular, crisis management. The objectives of fiscal policy depend on the strategy and tactics of each historical stage of development of the economic system. As the practice has shown, evolutionary improvement is the best way to reform the tax mechanism in the present conditions. However, it is necessary to strengthen the regulatory function of taxes by differentiating the tax credit rates depending on the specific economic tasks. This will ensure the increase in employment and employee skills development, support to small business, progress in research and development works, promotion of innovations, resource conservation, capital concentration, emergence of new firms and companies, and thus support to the competitive environment and business initiative. Achievement of the goals and objectives will be evidenced by simplification of administering the business activity, reduction in crisis sensitivity of the economy and increase in its ability to renew flexibly a sustainable development.

Post-crisis changes in economic, political and social spheres of the world countries indicate that the prevention of destructive effects of the next waves of liquidity crisis in global and national financial systems requires new approaches, in particular, the systemic changes in the institutions which ensure the operation of both self-regulating and motivation mechanisms and executive levers. This will ensure efficient coordination of anti-crisis measures against spontaneous self-organization of the market at the global level. Successive steps on linking the financial and monetary markets to the fiscal regulation in national economies are also required. Thus, it may be stated that the further reforming of the fiscal systems should be built into the core stabilization rules and regulations that have a positive effect on economic growth, consumer demand, and household wealth.

Before 2010, the transformation processes took place in Ukraine within the combination of 'invisible hand' and 'helping hand' models. Government actions on conducting the more effective industrial policy, providing support to individual entities, and balancing the financial sector did not create conditions for the development of the competitive advantages of the country such as a favourable geopolitical position, high resource potential, high-quality workforce and others. The need to strengthen the regulatory role of the government became apparent during the global financial crisis, when the need has arisen to develop measures to neutralize its negative impact on the domestic economy. Only in 2009 against the background of the events threatening the stability of the financial system such as unprecedented currency devaluation (48%), the decline in GDP reached 14.8% and the inflation rate was 15.9%.

Short-term duration of political and economic cycles of Ukraine development in the global environment that was unfavourable in terms of the negative external effects of instability factors resulted in low efficiency of national reform strategies.

In order to improve public goods, legality and order, the appropriate branches of government shall be oriented to protect property rights of all participants of investing activities. In the area of strengthening the entrepreneurship, corporatization and corporate governance institutions, it is planned to improve mechanisms of enterprise registration and liquidation, licensing and permitting, monitoring of contract execution, disputes resolution between the economic agents. Further restructuring of mechanism of social responsibility of the business includes also its involvement in the social partnership and dialogue, development and implementation of programs of economic motivation to comply with the common national goals [21, p. 209; 23]. In addition, the time dictates implementation of international standards in the national legislation concerning anti-money laundering and anti-corruption. All this needs further harmonization of regulatory tax instruments to ensure compliance with the principles of justice in the redistribution of GDP at minimum costs for institutional transformation and individual transactions.

In 2012-2013 the world market conditions became unfavourable again for our country, urgent need was arisen to accelerate the structural reforms [22]. Therefore, a prerequisite to neutralize new threats to the stability of the national economy is a balance between the public finance and areas of fiscal policy regulation, while fiscal policy should be even more directed at stimulation of business initiative, development of domestic markets, energy and resource conservation, retention of human capital.

The main barriers to the effective use of foreign and domestic financial capital are the imperfect institutional structure of the domestic financial services market, the lack of legislative support for its operation. In view of the above, the task of stable functioning of the financial sector assumes special importance. Analysis of the taxation of financial transactions in the EU has shown that currently the innovations should be considered in dynamics over a period of time. It should be taken into account that rather significant differences remain between EU member countries in the approaches to the taxation of financial institutions.

Orientation towards stimulating the investing and innovation activities of commercial banks in the context of anti-crisis economic policy, competitive recovery of the economy enabled to strengthen institutional basis for monetary relations in our country [24, p. 675]. At the same time, the main argument in favour of further harmonization of legislation in this area is the task of creating a single financial services market, which is considered one of the key anti-crisis prerequisites for acceleration of the economic growth in the European Union. These perspectives are considered in the context of socio-economic strategy and tactics at all levels, i. e. supranational, national, and others.

Given the experience of foreign countries and the state of development of domestic markets, for example, insurance and investment, further changes in the system of their taxation with use of the best practice should be made along with stimulation of the active entrepreneurship support. This refers to orienting the interests of taxpayers on increase the revenues through maximum use of their own funds for investments, ensuring a structural shift of economic proportions in favour of those industries that are directly related to stimulation of innovation activities and satisfaction of the needs of the population.

It is clear that the implementation of the above is possible if the budget revenues to finance urgent national programs, including the social ones are sufficient. Accordingly, the management in fiscal policy should be built in such a way as to avoid institutional pitfalls that usually arise during the reforms [16, p. 87-130]. After all, the government needs financing to not only achieve current goals, but also support competitive business in the world arena, protect the national market economy against the crisis shocks. All instruments of fiscal regulation, including tax levers, should be intended in essence to recover economy, restore human capital, avoid export of labour resources. Thus, the contemporary possibilities of monetary and fiscal policies enable to combine financial management mechanisms to maintain a moderate tax burden.

During the crisis period of 2008-2009 the deficit, consumption-oriented state budget of Ukraine has stimulated inflation and import and was actually the catalyst for economic model of consumer behaviour. In the post-crisis years, the ratio of government debt to GDP was almost three times higher than the pre-crisis level. Under these conditions, the use of large amount of government loans, the proceeds of privatization to finance a deficit made it impossible to intensify transition to the investment and innovation model of development.

As is known, the way out of the global financial crisis is accompanied by the demand in the concepts of J. Keynes, according to which the management is carried out using macroeconomic instruments that affect the organization of redistribution functions of the government. In this regard, the constant political will should be available. The fiscal strategy and tactics will always assume that the government will influence the coordinated activities of groups representing public, private and collective interests relative to certain objectives.

The formation of tax relations that should meet the requirements of civil society is essential, ensuring the compliance with constitutionally guaranteed rights in performing the tax laws. Also fundamentally important condition is the consistent improvement of transparency in the relations of economic agents, step-by step waiver of the vestiges of paternalism, especially in the institutions of public government. Today the partnership relations between the civil society, business and government are becoming more effective. It is seen as a paradigm of the new economy. Without implementing the model of equal and fair relations not only when concluding

contracts, but also in life in general, one can hardly rely on effective reforms in the budget or the tax area.

In the recent years, a clear determination of the limits of government interference with the processes of allocation and reallocation of financial resources that are created in various economic sectors is observed. Thus, from the beginning of the XXI century, the tax-GDP ratio (including social security contributions) was gradually increased, mainly due to indirect mandatory payments, and in 2012 it was 39.1% or by 11.2 pp more than in 2001. Budget balancing is made for the most part by ensuring a predictable share of GDP redistribution through the revenues of the consolidated budget. Over the past three years, the total amount of revenues was 43.1% of GDP and that of tax revenues was 26.1% of GDP, exceeding the corresponding average indicators of several Eastern European countries (Bulgaria, Poland, Czech Republic, etc.) and Russia by about 4 pp. The high tax burden at the macrolevel in Ukraine is due to the features of acting mechanisms of direct and indirect taxes and social security contributions, which share in GDP is by about 2.0, 0.6 and 2.1 pp more than in the above countries.

In the context of financial strength with the use of certain instruments of public finance liquidity management, the future expansion of fiscal space of Ukraine should be accompanied by a consistent balancing of changes in budget revenues and expenditures in curbing inflation, increasing economic growth rate and implementing the innovation model of development. Full and timely financing of budget expenditures should be related to a decrease in tax arrears, effective regulation of sources of financing the budget deficit, prevention of risks of misstatement of the basic parameters of public finance system. Given the organic interdependence and interrelation of the factors of financial and economic strength, the primary objective of the policy guarantying socio-economic stability and security is re-orientation of financial resources at the maximum possible expansion of the financial base of the real sector.

Further increase in the fiscal space will be related to improvement of public debt management system by reducing the debt burden on the economy and budget. Against the background of the Government meeting the monetary obligations in full, confidence of participants of domestic and world financial markets in the fiscal policy of government borrowings will be gradually restored. The Law of Ukraine *On the State Budget* establishes annually the absolute value of the public debt. Thus, as at the end of 2012 its ratio to GDP was 28.3% and that of the guaranteed debt was 8.3%, being significantly less than the 60 per cent limit specified by the Budget Code of Ukraine. Similarly, the rules regulating the total local debt and guaranteed local debt are established as agreed with the central executive body responsible for formation of the state budget policy. The main criteria in this case are the ratio of local budget expenditure for servicing the local debt to the expenditures of local budget general-purpose fund. Forecasted dynamics of revenues to the for development

budgets not taking into account local borrowings, capital transfers, and transfers from other budgets is also considered.

Subsequently, as the international experience shows, a focus on innovation model of development will require appropriate structural and technological changes in the economy and its individual sectors. To accomplish this, it is necessary to comply with the following basic principles of reforming tax policy as a part of socio-economic strategy and tactics of the state, taking into account the balance between the external and internal factors [24, p. 475]:

- *understandability, universality and equality*. All institutional units should participate in public spending, depending on their income; investment, trade and economic decisions should be protected against the effects of their probable tax implications;

- *certainty, justice, stability and convenience*. The term, payment mode and the amount of taxes should be clearly set with constant decrease in costs of administering both the government and the economic agent; the tax system should be fair, free from any unsubstantiated benefits, progressive to such extent that the amount of tax payments be dependent on the payer's welfare; payment of taxes should be made at a time which is suitable to the taxpayer (in terms of minimizing the diversion of working capital) and the payment procedure should be fully understandable;

- *taxpayers' rights inviolability, soundness of tax base formation*. Consistency of various laws should foster investments, economic development, competitiveness and employment. The revenues of budgets of all levels should be increased by broadening the tax base, ie the tax system should include sources of tax revenues with calculation methods that are relatively simple in terms of time spent and unambiguous interpretation;

- *tax revenues sufficiency and tax policy flexibility*. The level of budget revenues should be sufficient to meet the financial needs of the state and taxation should respond adequately to changes in the financial position of institutional units.

Further reforming of tax regulation at the level of microeconomics stipulates for fiscal stability and fiscal consolidation taking into account the features of market mechanisms. This is especially relevant for direct and indirect taxes, which constitute the bulk of tax revenues in Ukraine.

Indirect taxation in this country is actually based on excise taxes and VAT. Their share in GDP was continuously growing over the past decade and doubled at the end of this period. However, levying VAT was complicated from time to time as a result of accumulating VAT refund arrears due to lack of budget funds in times of crisis. However, with the adoption of the Tax Code of Ukraine the measures were taken to settle arrears using quick and automatic refund mechanisms. It should also be noted that as early as 2009, the excise burden on tobacco products and alcoholic beverages increased unprecedentedly, unlike the previous trends of increase, which were rather flat, corresponding to inflation dynamics. Apropos, the governments of Baltic countries had recourse to the same measures during the period of crisis.

It is certain that indirect taxes will continue growing as the main guaranteed sources of revenues to the state budget in the context of making them compliant with international requirements. At present, the Tax Code of Ukraine covers with the tax base all end-consumer expenses, reducing preferences for their payments, reducing them to the list of common exemptions, including the social orientation used in the international practice. The priority will remain addressing the issue of timely VAT refund through improvement of its collection and administration system, the procedures for registration of taxpayers and methods of tax control, as well as the grounds and terms of cameral, scheduled and unscheduled tax inspections. Maximum neutrality of indirect taxes will be achieved gradually through clearer separation of procedures for taxation of transactions, including those related to the goods moving within the customs territory of Ukraine, customer-furnished raw materials and finished products made from such raw materials that are imported into (exported from) the customs territory of Ukraine, and transactions entered into by the non-residents, particularly, in information technology sphere.

Proposals on reducing the current rate of VAT, cancelling the most of the benefits of payments for this tax, while introducing a turnover tax at the rate of 1-2% of VAT basis should be mentioned. However, in our opinion, such actions, as in 2005, will result in a broad discussion of so-called cumulative effect. Of course, the relatively low rates of turnover tax actually reduce the negative cascading effect. However, considering the chain of value-adding and resource-intensive goods and services, the cumulative effect in a tax base can be excluded, only if the differentiated rates and special categorization of products are introduced that always leads to complications with tax administering.

It is quite possible that in the process of reform, we will certainly return to the feasibility of using reverse VAT model, which also found support in cases of high risk of tax non-payment. Among other modifications of indirect taxes, a sales tax should be mentioned. For example, in the USA conflicts arose from the shortcomings in the classification of trade transactions in terms of their pertaining to the final stages of consumption. In the crisis years, the attempts to introduce VAT instead of this tax were made. Proposals to cancel the so-called first event in accruing VAT cause a serious concern in terms of real opportunities of administering. However, in any case, the search for new combinations of known forms of indirect taxation will have a positive effect, because, in our opinion, this type of taxes can be maximally neutral to decision-making in the business environment, and thus promote the economic growth.

In the first decade of the XXI century, the growth of direct taxes in Ukraine, as opposed to indirect taxes, was observed only during the pre-crisis recovery (2001-2007) that was favoured by the salary increase policy and success activities of the enterprises. However, after the crisis, the share of direct taxes in GDP dropped to the level of a decade ago. In particular, the improvement of corporate income tax rates

was aimed primarily at stimulation of investment and innovation, convergence of bookkeeping and tax accounting, improvement of depreciation policy, reforming the taxation of profits of the financial sector, prevention of capital exports and minimization schemes. In its turn, the reforming of personal income taxes is usually aimed at increasing the efficiency of their collection, increasing the tax burden on the rich by introducing low-rate progressive taxation.

From now on as previously the approaches to taxation of self-employed people, revenues from the sale transactions in movable and immovable property, heritage, and gifts will be improved. It is worth also to coordinate more clearly the amounts of tax benefits and property status of taxpayers to ensure maintaining minimum standard of living, social and cultural development. The increase in income taxes of wealthy citizens can be seen as a method of forming additional revenues to compensate reduction in VAT rates.

Depending on the mechanism of collection, the corporate income tax can create excessive tax burden on business. At the same time, a large number of exemptions from this tax, the difficulties in determining the tax base (capital appreciation, depreciation charges, existence of double taxation) and proceeds from corporate income tax can hinder, in the long term, the establishment of simple and transparent administration procedures. Further reform of the income tax will be conducted by eliminating or reducing the disincentive impact of special benefits for corporate income tax and payment of a social contribution. Reducing the possibility of arbitrary application of the current system by small businesses shall be considered separately. Cancellation of a number of possible benefits will enable expanding the income tax base, liberalizing depreciation and accounting for business expenditures, introducing declining balance method of depreciation. All this will ensure an increase of income tax revenues to the budget and reduction of the burden on the enterprises at the same time, simplification of the accounting procedures for assets and determination of the amount of depreciation, reduction of misstatements in taxation under the conditions of inflation.

In terms of the effectiveness of the regulatory function, the focus should be on reducing the tax for those who invest their own profits in the development of production. Enabling the entities to make economic manoeuvre, the tax authorities shall assess the profitability of separate subsidiaries of large corporations to avoid reducing the tax base through transfer pricing and moving artificial' negative performance to profitable companies in merger of loss-making companies. Therefore, the adoption of a special law in Ukraine on transfer pricing will help to avoid situations of artificial tax minimization.

Among the radical anti-crisis measures attention should be paid to the studies of using excess profit taxes, in this case the successful projects on introducing new technologies are out of question. However, such instruments are necessary in taxation of speculative transactions, especially in the financial sector. The discussions on this issue, which are now in the EU, show that the national tax systems are not

always prepared for the simultaneous introduction of taxes on financial transactions. Developed financial markets have a supranational structure, but the existence of stock exchanges as taxpayers of a certain country, can, according to some experts, lead to unfair distribution of the tax burden on the portions of GDP from the financial sectors around the world. The disputes on this issue are also intensified because, for example, the EU provides for the sharing of resources to stabilize the public finances of the countries that are most affected by the crisis. But the power structures of the economies where the share of the financial sector in GDP is higher than average, have a special vision of the prospects of applying and using special taxes in this sector.

The analysis of corporate income taxation suggests that this tax affects the additions of the entity's assets. The formation of own funds that can be used for further development, avoidance of dependence on both the borrowed funds and additional risks in the event of high interest loans should be supported. The increase in income tax rates results in decrease of profits, remaining in the possession of businesses and discourages the investment. In turn, a decrease in income tax rates enhances the investment activities. Profitability usually depends on a number of different factors, primarily on the level of production costs, external and internal conditions of the sales markets, etc. The analysis should also take into account the actual data concerning the payment of indirect taxes. Despite the shortcomings of the information base, the inverse proportionality is observed between the change in the share of taxes on products and profitability.

At the macrolevel, income tax determines, to a great extent, the amount of gross savings in the real economy sector and its investment potential. However, the analysis of the tax burden should compare the data considering the dynamics of sector gross income, probable artificial narrowing of the tax base, and changes in the number of loss-making entities.

The next important stage of the tax reform in Ukraine should be further reducing the number of taxes by cancelling fees in the form of targeted surcharges to tariffs for the use of radio frequency resources, improving the environmental taxation, lease payments and other duties. As far as the national economy is stabilized, the use of simplified taxation systems should be gradually reduced. The global economic and financial crisis calls for further fiscal consolidation in separate countries and worldwide. Formation of stable financial systems should be accompanied by changes in many components of government regulation. The development policy, budgetary implications in the areas of climate changes, risks in the financial sector require introducing the best practices of innovative financing. For example, this applies to the payments for carbon emissions, taxation of financial transactions. In circumstances of resource constraints the use of excise taxes on electric power should be expanded, the lease payments should be based on valuation.



Within the frame of further reforms, special consideration is required for provisions on the composition of tax laws, the subordinate legislation, interpretations of legislation, the right to introduce any new taxes in addition to the adopted lists, consolidated taxpayer, broadening the rights of taxpayers, etc. However, a new strategy of development of public financial management system should provide for the application of principles, guidelines, common taxation procedures and mechanisms in accordance with best international practice in order to improve the living conditions and economic activity of business entities.

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